

Summary

As of January 17, retail regular-grade gasoline prices in California had increased 14 cents since the previous *Petroleum Watch* to \$3.70 per gallon, while retail diesel prices rose by 7 cents to \$4.12 per gallon. California retail gasoline prices rose due to low inventory levels, while the spread between retail and wholesale diesel prices narrowed.

California spot wholesale gasoline prices increased 27 cents from a month ago to \$2.83 per gallon, an 11 percent gain. Wholesale diesel prices rose 30 cents to \$3.16, for a 10 percent increase.

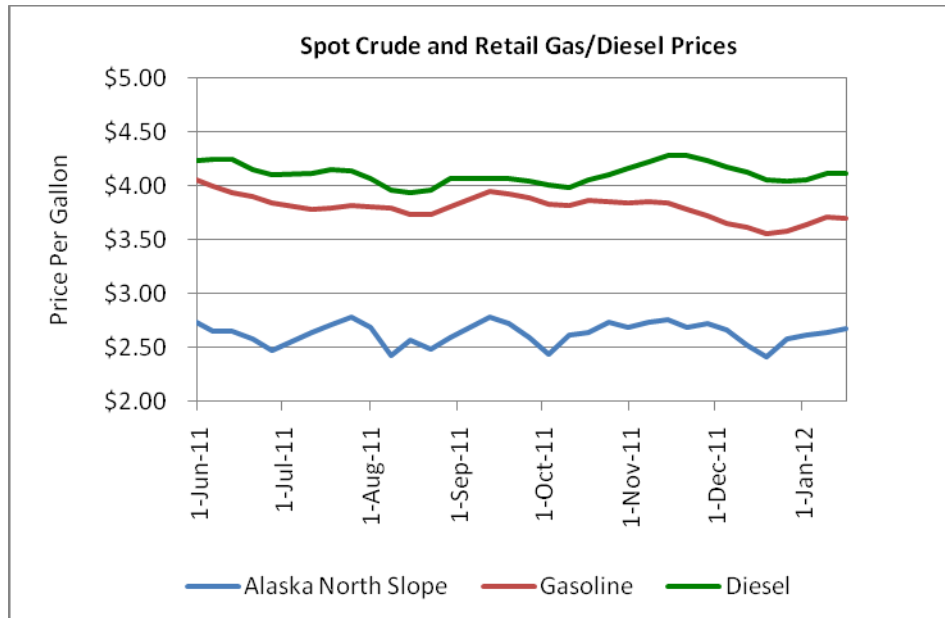
Refinery production of gasoline in California fell 0.3 percent while diesel production rose 26.5 percent in the past week. Inventories of gasoline have increased for six weeks in a row and grew 2.9 percent in the past week. Inventories of diesel have risen 21.6 percent over the same period. Production and inventories of gasoline and diesel are all within their five-year range.

World crude oil prices contributed substantially to fuel price changes over the past month. Brent oil prices have risen to \$113.30 per barrel while West Texas Intermediate (WTI) prices have risen to \$102.24 per barrel. Alaska North Slope (ANS) crude oil prices rose to \$113.72 as of January 10, \$7.80 more than a month ago.

Comparisons of Diesel, Gasoline, and Crude Oil Price Changes

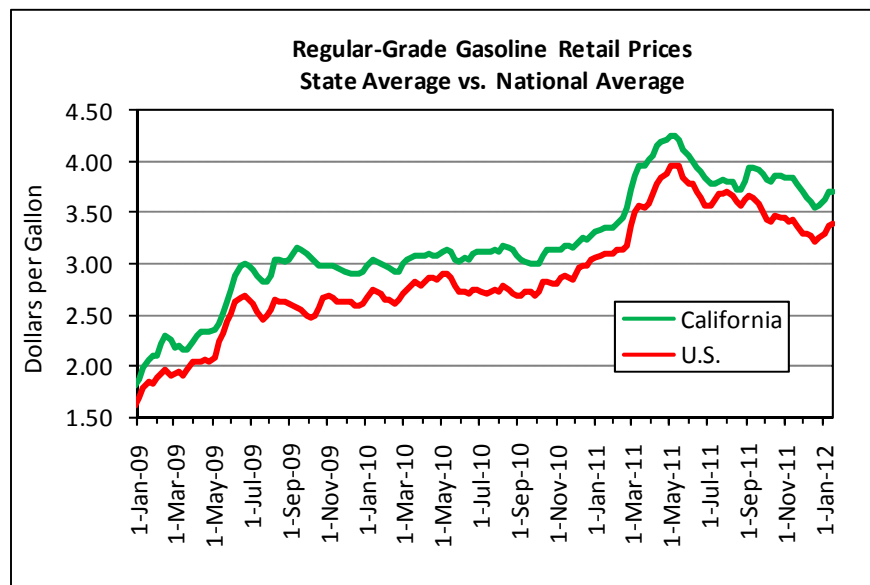
ANS crude oil and California retail gasoline and diesel prices all decreased from May through September 2011. In October, ANS, gasoline, and diesel prices briefly increased before resuming their decline in November. In January, prices again increased. As of January 17, ANS prices were \$2.67 per gallon, gasoline prices were \$3.70 per gallon, and diesel prices were \$4.12 per gallon.

ANS crude oil prices are now 2 cents per gallon more, and gasoline and diesel prices are 29 cents and 13 cents per gallon less, than on June 6, 2011. Diesel prices have largely tracked crude oil price changes over the year while gasoline prices have fallen over the last three months. Contributing factors include a decrease in gasoline consumption relative to diesel consumption.



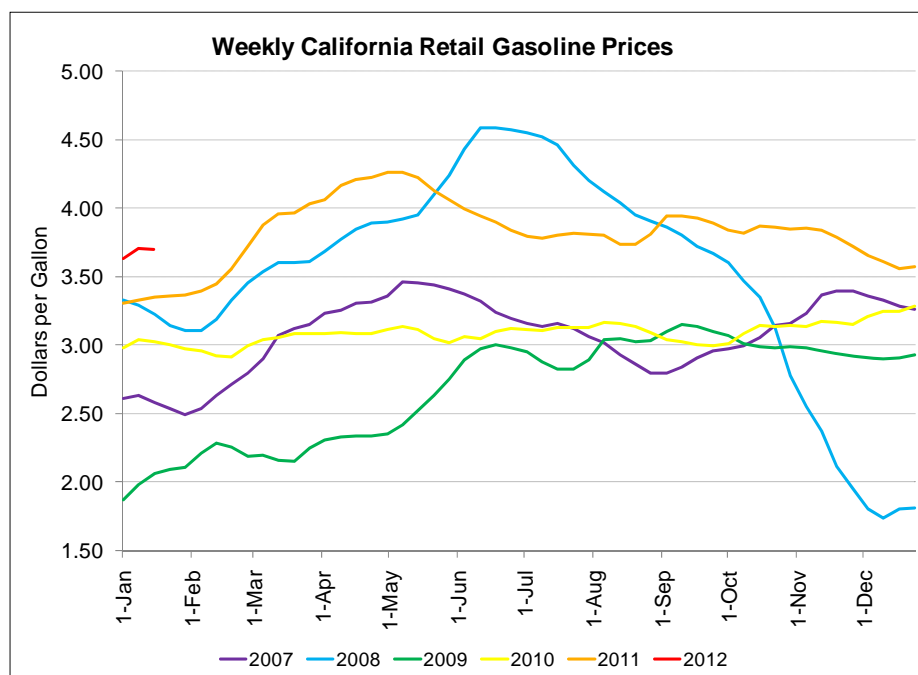
Retail Prices

The average California **retail price for regular-grade gasoline** increased 14 cents over the past month, rising to \$3.70 per gallon, and is 35 cents higher than this time last year.¹ The monthly increase is steeper than the increase in wholesale prices. Average U.S. retail gasoline prices have also increased, rising by 16 cents from a month ago to \$3.39. Average U.S. gasoline prices are 29 cents more than a year ago. Over the past month, the difference between California and U.S. retail gasoline prices fell slightly, from 33 to 31 cents per gallon, keeping the premium for California gasoline near the three-year average of 30 cents per gallon.

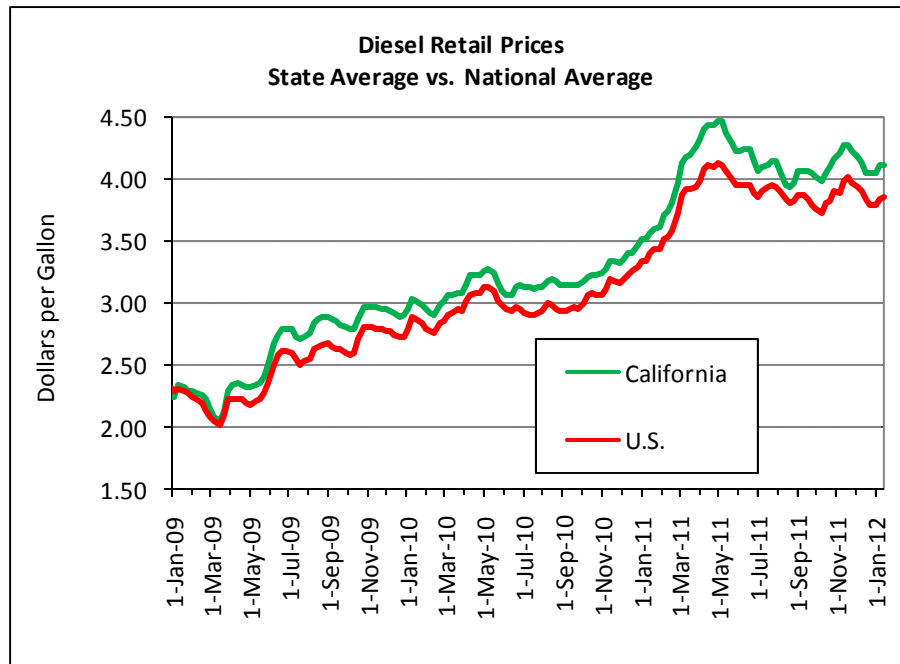


Although California retail gasoline prices are the highest they have been for January in the past six years, current prices are only slightly higher than December 2011 prices. Gasoline prices

have been at five-year monthly highs since September 2011, and the only time 2011 prices were exceeded over this period was during the price spike of 2008.



The average California **retail diesel price** increased 7 cents over the past month to \$4.12 per gallon. California diesel prices are 55 cents higher than a year ago. The average U.S. retail diesel price also rose, climbing 3 cents over the past month to \$3.85 per gallon. U.S. prices are 45 cents higher than a year ago. Although California diesel prices did not increase as much as gasoline prices in the past month, they have been somewhat stronger in recent months and have not shown a consistent trend since last June. The premium for California diesel over U.S. diesel prices increased by 4 cents since last month.

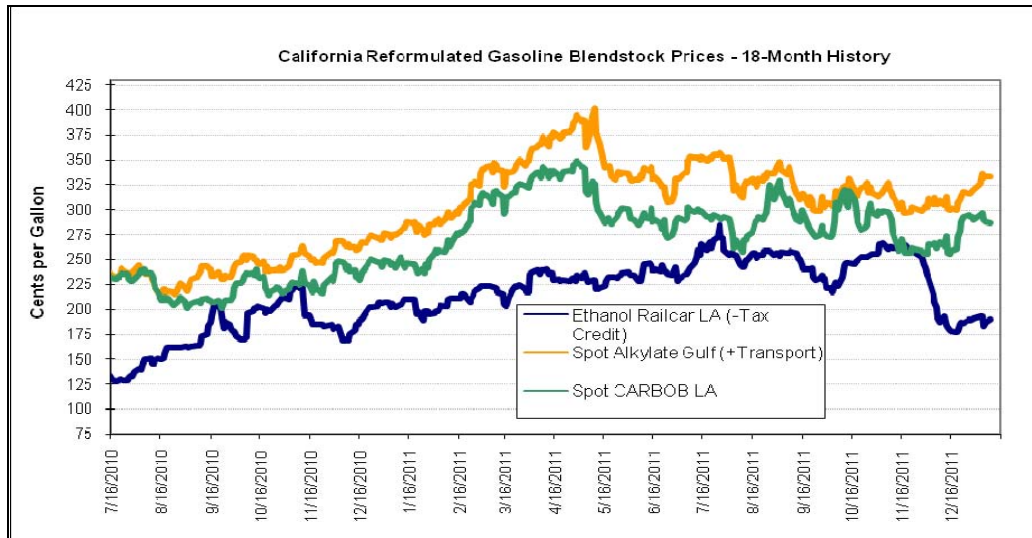


Wholesale Gasoline and Blendstock Prices on January 13

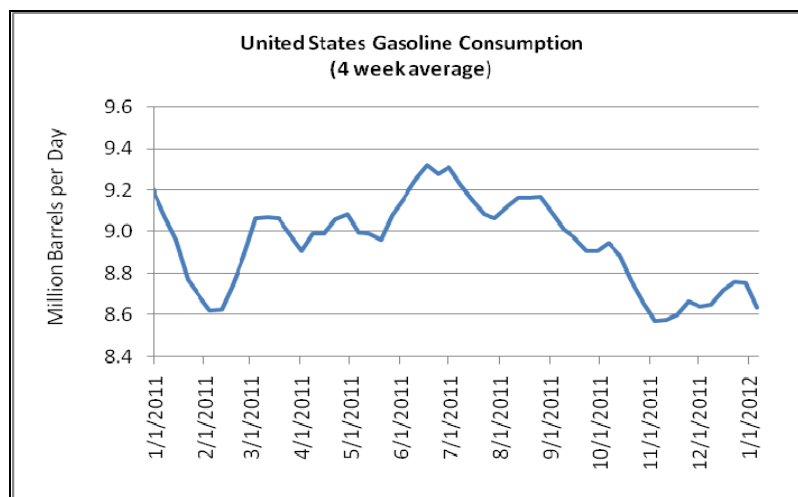
California spot wholesale gasoline prices for regular-grade reformulated blendstock for oxygenate blending (RBOB) rose to \$2.83 per gallon, 27 cents higher than a month ago and a 37 cent increase over the same time a year ago. Prices in New York saw a similar trend, rising 21 cents over the past month with a 21-cent gain over a year ago. Nearly all of the increase in California RBOB price can be attributed to a 39-cent rally between December 15 and December 23. That increase has been attributed to concerns about January refinery maintenance as well as exports of gasoline to South America.

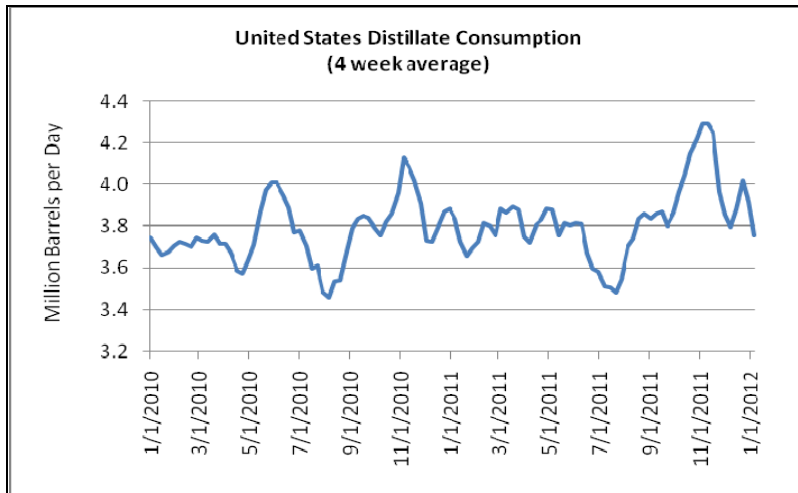
California average spot wholesale ultra-low-sulfur diesel prices stood at \$3.16, an increase of 8 cents in the past week and 30 cents over a month ago. In addition to upward pressure from diesel exports to South America, California diesel prices also followed a rally in distillates at the New York Mercantile Exchange (NYMEX) during the beginning of the year which has been attributed to European refinery shutdowns and worries about international tensions, particularly with Iran.

California average **spot wholesale prices for fuel ethanol** rose 11 cents from the lowest levels in over a year to \$1.90 per gallon as of January 9, 2012.² Abundant corn supplies contributed to low ethanol prices over the past month, though over the last week rising gasoline prices have pushed ethanol prices up.



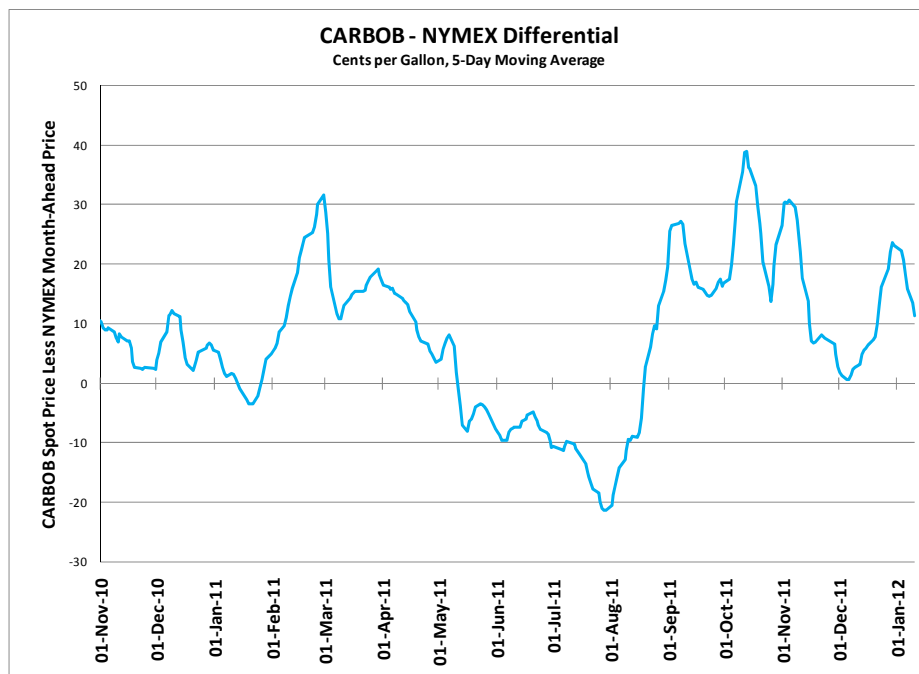
The Energy Information Administration's (EIA) weekly report for the week ending January 6 shows that U.S. gasoline consumption decreased 4.4 percent, and distillate consumption decreased 7.1 percent from the previous week. The four-week average consumption for gasoline is 8.6 million barrels per day, a decrease of 4.8 percent from the four-week average the same time a year ago. The four-week average for U.S. distillate consumption is 3.8 million barrels per day, 2.2 percent less than the same period a year ago. A quirk of the calendar in which Christmas and New Year's Day were observed on Mondays has been said to contribute to the decrease: last year's Saturday holiday dates saw fewer people taking time off. On the distillate side, an unusually mild winter in the United States has caused decreasing demand.



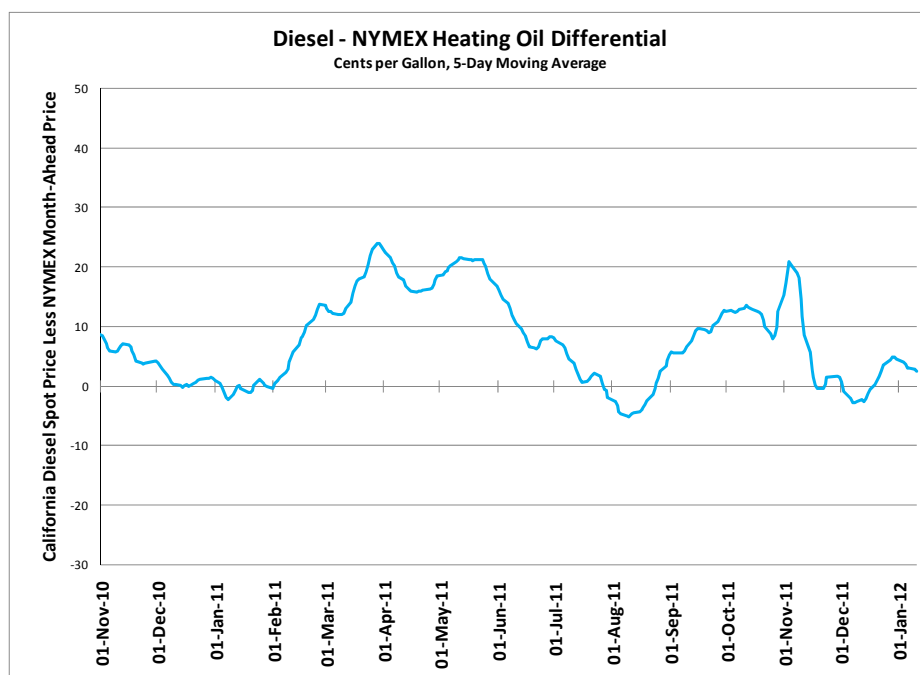


Futures-Spot Market Spread³

The spot market price for California gasoline shows an 11 cent premium to the NYMEX one-month-ahead futures price. This puts the premium slightly above its 2010-2011 average of 9 cents and a full 10 cents above its level a year ago. After the volatile and high-premium September to mid-November period, the five-day average premium fell to almost zero as of early December. During late December and early January the premium spiked above 20 cents and fell back to 11 cents because the futures price moved steadily higher while the spot California price rose rapidly and then fell toward the futures price. These two trends and the resulting spike likely reflect concerns over in-state refinery planned maintenance and gasoline exports. Neither of these events had much influence on the NYMEX price but were significant events for the California spot market.

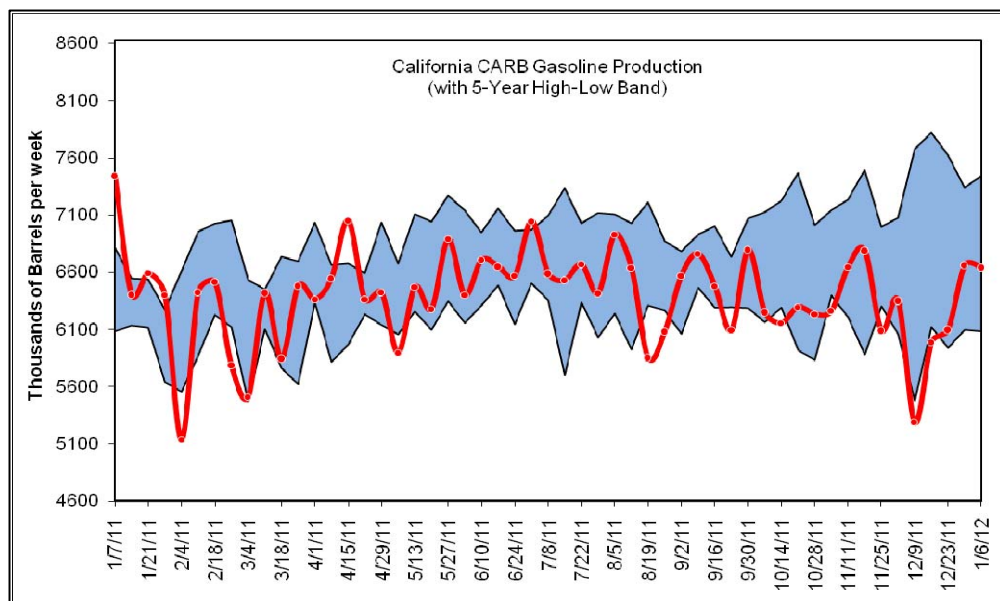


California diesel holds a 3 cent premium to the NYMEX heating oil one-month-ahead futures price, the same level seen in the November *Petroleum Watch*, and well below the average 12 cent premium. The differential has been fairly steady, staying below a nickel since mid-November. The California diesel market has not been affected by refinery maintenance and fuel exports to the same degree as the California gasoline market. Consequently the California spot diesel price remained close to the NYMEX futures price.

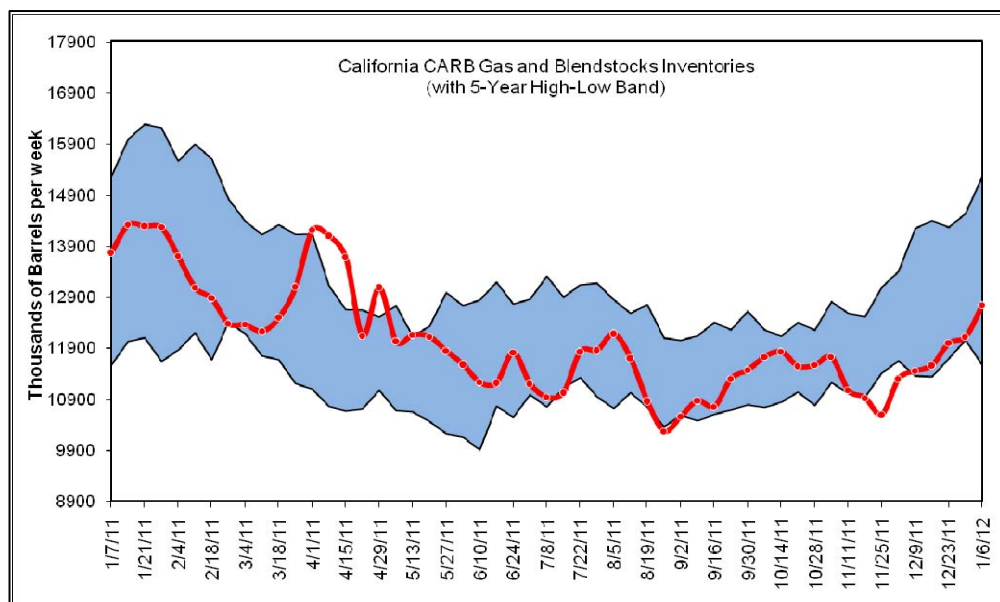


Refinery Production and Inventories

Reformulated gasoline production in California for the week ending January 6 decreased 0.3 percent from the previous week to 6.6 million barrels, still remaining near the middle of the five-year range and 10.8 percent lower than a year ago.⁴

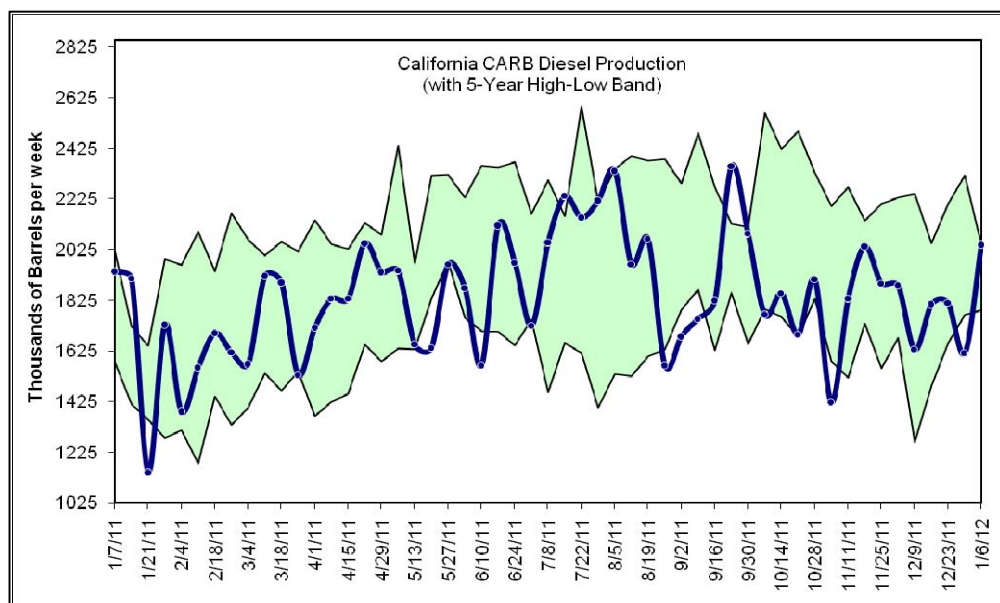


California **reformulated gasoline inventories** increased 2.9 percent from the past week, while gasoline blendstock inventories increased 7.1 percent. California's combined inventories of reformulated gasoline and gasoline blendstocks increased 5.1 percent to 12.7 million barrels, still remaining in the lower portion of the five-year range. Combined inventories have increased by 20 percent from late November to early January in a normal seasonal build.

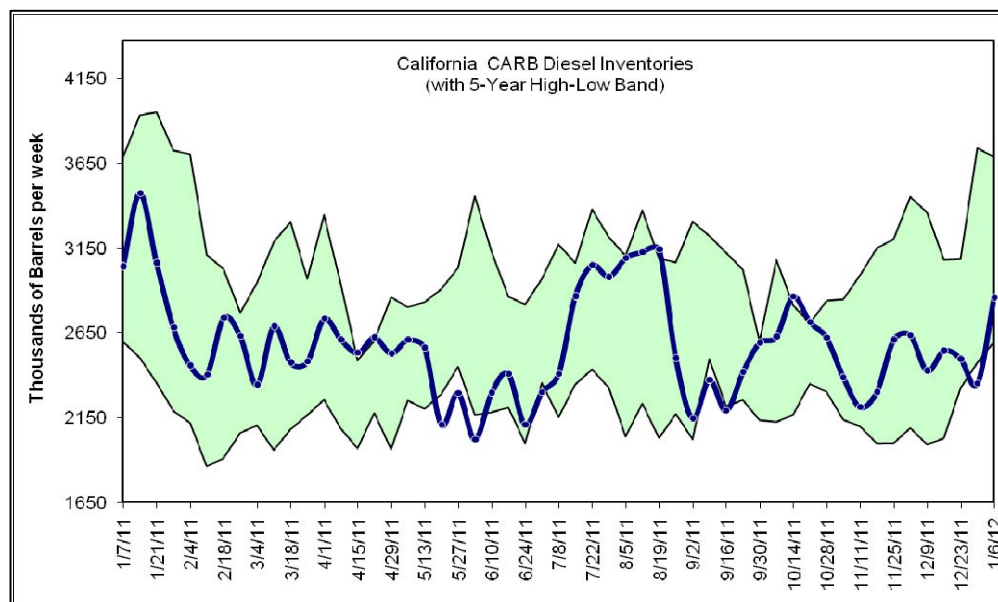


For the United States, gasoline inventories as of January 6 increased to 223.8 million barrels, 3.6 million barrels more than the previous week. Inventories increased by 1.2 million barrels on the East Coast and 1.5 million barrels on the West Coast, but decreased by 990,000 barrels on the Gulf Coast.

California-compliant **ultra-low-sulfur diesel fuel (CARB diesel) production**⁵ was 2.0 million barrels during the week ending on January 6, an increase of 26.5 percent from the previous week, rising to the top of the five-year range.



Inventories of CARB diesel in California increased 21.6 percent from the previous week to 2.9 million barrels but remain near the lower portion of the five-year range.



U.S. distillate inventories as of January 6 rose to 147.6 million barrels, 4 million barrels more than the previous week. Inventories increased by 740,000 barrels on the East Coast, 1.3 million barrels on the Gulf Coast, and 1.4 million barrels on the West Coast.

Crude Oil Prices and Associated Factors

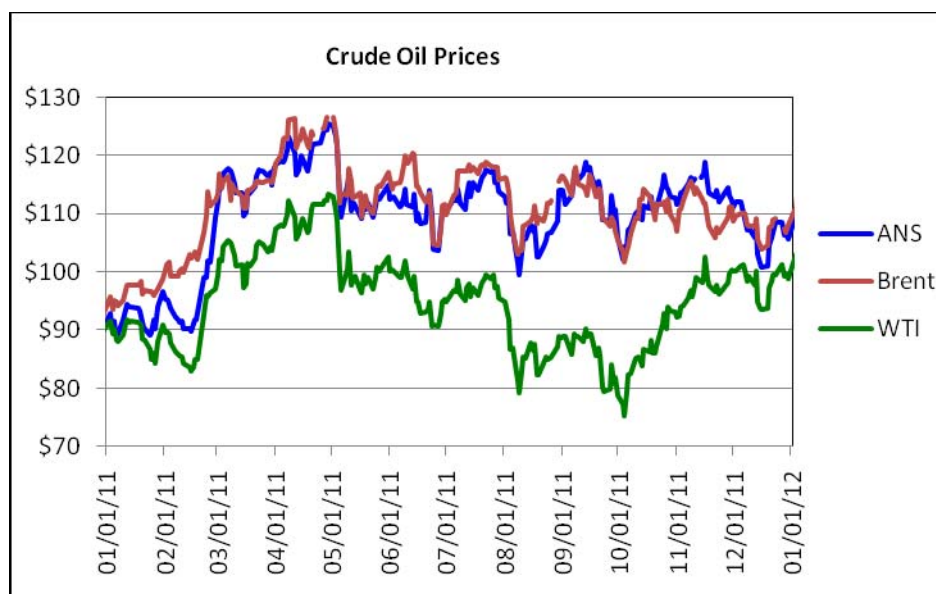
West Coast prices for ANS crude oil, a refinery feedstock for California, rose to \$113.72 as of January 10. Prices have risen \$7.80 since the previous *Petroleum Watch* and are \$21.97 higher than a year ago.⁶ ANS crude oil price changes are influenced by inventory levels, refinery capacity, domestic and international economic conditions, currency exchange rates, perceived risks to global supply such as unrest in the Middle East, and near-term price trends as indicated by the futures market for crude oil. A Bureau of Labor Statistics report showed that the unemployment rate decreased from 8.7 percent in November to 8.5 percent in December, easing fears of a double dip recession. Sanctions against Iran have had the effect of increasing geopolitical tensions and reducing the export of Iranian oil to Asian and European countries, pushing prices up. Economic indicators in the United States and Europe remain weak, however, putting downward pressure on prices.

Recent Trends in Crude Oil Prices

	December 2011	January 2012	Change from previous Month	Directional Contributing Factor		
				Upward	Downward	Unchanged
ANS Crude Oil Price (U.S. Dollars/Barrel)	\$105.92	\$113.72	Up 7.4%			
Europe Brent Crude Oil Price (U.S. Dollars/Barrel)	\$107.82	\$113.30	Up 5.1%			
West Texas Intermediate, Cushing Oil Price (U.S. Dollars/Barrel)	\$97.77	\$102.24	Up 4.6%			
U.S. Crude Oil Inventories (MM Barrels)	334.2	334.6	Up 0.2%			✓
S&P 500	1,236	1,292	Up 4.5%	✓		
EURO STOXX 50 Price	2,288	2,426	Up 6.0 %	✓		
Total Dollar Index	79.5	80.8	Up 1.6%		✓	
Exchange rate: Dollars per Euro	1.32	1.28	Down 3.0 %		✓	
Tensions in Oil Exporting Countries				✓		
Disruption in Oil Exports						✓

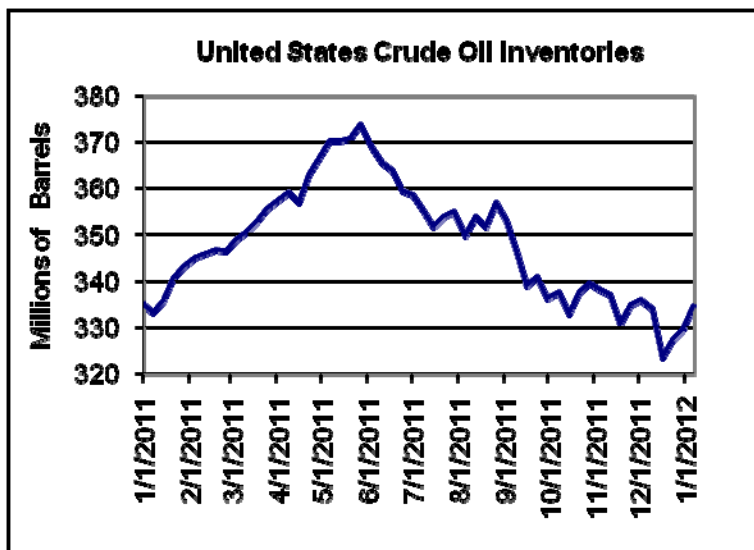
In the past three months, the spread between West Texas Intermediate crude oil prices and the Brent crude oil contracts spread has narrowed substantially, from \$27.14 on October 12 to \$11.06 on January 10. West Texas Intermediate-NYMEX futures traded at \$102.24 per barrel as of January 10, \$11.48 less than ANS crude oil. As a result of this divergence, Alaska North Slope and San Joaquin Valley crude oil prices now tend to track Brent prices rather than WTI prices.

From January to August 2011, Brent crude oil traded at a slight premium to ANS crude oil, but from late August to early September, this premium disappeared as concerns over the economic impact of European debt affected futures markets. Since mid-November, Brent and ANS have been trading at similar prices.



A major reason for the divergence between Brent and WTI crude oil prices earlier this year was the increased production of shale oil from the Bakken formation in North Dakota. A combination of increased rail transportation⁷, barge shipments, and planned pipeline reversals has eased transportation problems, substantially narrowing the WTI discount in recent months.

U.S. crude oil inventories have decreased over the past week. U.S. commercial crude oil inventories as of January 6 rose by 5.0 million barrels from the previous week to 334.7 million barrels. Crude oil stocks are 1.5 million barrels more than a year ago and 17.2 million barrels more than the five-year average for this date. California crude oil stocks fell 9.6 percent from the previous week to 16.5 million barrels but are 7.6 percent more than a year ago.



¹ Retail gasoline and diesel prices and U.S. crude oil and product inventory estimates are from the Energy Information Administration of the U.S. Department of Energy.

² Ethanol railcar prices are from Platts Oilgram and are average prices for prompt Southern California shipments minus a 45¢/gal federal excise tax credit for 2009 prices and a 51¢/gal federal excise tax credit for prices prior to 2009. California alkylate prices are also calculated from *Platts Oilgram* and include a 20¢/gal transportation and distribution cost from Gulf Coast to California. Spot wholesale prices for regular-grade California reformulated gasoline blendstock for oxygenate blending (CARBOB) are from Oil Price Information Service.

³ A higher spread between the state's spot fuel prices and the New York Mercantile Exchange (NYMEX) futures price indicates supplies are tighter in California, and a lower spread indicates the market is relatively well-supplied compared to the rest of the country. The NYMEX futures price reflects the national market, while California Reformulated Gasoline Blendstock for Oxygenate Blending (CARBOB) is a gasoline blend unique to California and is usually sold at a premium to the NYMEX.

⁴ California refinery production and inventory information is from the Petroleum Industry Information Reporting Act (PIIRA) database maintained by the California Energy Commission.

⁵ Staff has discontinued the reporting of combined CARB and EPA diesel production and inventories and will report only CARB diesel as of December 2009. EPA diesel is primarily for export from California.

⁶ Alaska North Slope (ANS) crude oil prices are from *The Wall Street Journal*. Brent and West Texas Intermediate (WTI) crude oil prices are from the Energy Information Administration.

⁷ Oil Rail transportation estimates are obtained from the Energy Information Administration of the U.S. Department of Energy and the American Association of Railroads